



Financial Management Report as of December 31, 2012

AT A GLANCE:

City Council Unanimously
Adopts 2013-14 City
Budget

(page 2 sidebar)

2012 revenues through
December ended the year
slightly ahead of budget
(page 3)

Sales tax revenue grew in
2012
(page 5)

Economy continues a slow
recovery
(pages 7-8)

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The Financial Management Report was a challenge to interpret in 2012 due to annexation, which impacted expenditures and revenues at different times throughout 2011 and 2012. As a result, instead of discussing the comparison of 2012 actual revenues and expenditures to the prior year, this quarter's FMR compares the 2012 actual results to the 2012 budget and highlights revenues received in 2011 that were used to offset expenditures budgeted in 2012.

Summary of All Operating Funds: *Revenue*

- **General Fund** actual 2012 revenue ended the year at **101 percent** of budget, excluding resources forward and interfund transfers. The 2012 budget included revenues projected for the new neighborhoods (annexation area), which came in lower than projected, offset in part by growth in revenues elsewhere in the City. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
- **Other General Government Funds** actual 2012 revenue ended the year at **95.9 percent** of budget. \$1.1 million of one-time County Road Levy revenue budgeted to offset authorized expenditures in 2012 was actually received in 2011. Including the road tax received in 2011, Other General Government Funds actual 2012 revenue to budget would be at 101.8 percent.
- The **Water/Sewer Operating Fund** actual 2012 revenue ended the year at **102.6 percent** of budget. In 2012, sewer rates increased by 5.5 percent and water rates increased 2.2 percent.
- **Surface Water Management Fund** actual 2012 revenue ended the year at **101.5 percent** of budget. Surface Water charges are paid with property taxes, which are primarily received in April and October.
- **Solid Waste Fund** actual 2012 revenue ended the year at **95.4 percent** of budget. In 2011, Solid Waste customers had the opportunity to move to a smaller can size. More customers moved to a smaller size than expected which caused rate revenue to come in lower than expected. Utility reserves were used to offset the shortfall.

| Resources by Fund | Year-to-Date Actual | | | Budget | | | % of Budget | |
|--------------------------------------|---------------------|--------------------|--------------|--------------------|--------------------|--------------|---------------|---------------|
| | 12/31/2011 | 12/31/2012 | % Change | 2011 | 2012 | % Change | 2011 | 2012 |
| General Gov't Operating: | | | | | | | | |
| General Fund | 66,511,917 | 76,980,460 | 15.7% | 68,664,728 | 76,241,634 | 11.0% | 96.9% | 101.0% |
| Other General Gov't Operating Funds | 19,430,958 | 18,172,866 | -6.5% | 16,672,780 | 18,954,114 | 13.7% | 116.5% | 95.9% |
| Total General Gov't Operating | 85,942,875 | 95,153,326 | 10.7% | 85,337,508 | 95,195,748 | 11.6% | 100.7% | 100.0% |
| Utilities: | | | | | | | | |
| Water/Sewer Operating Fund | 19,387,708 | 21,075,119 | 8.7% | 19,807,418 | 20,540,187 | 3.7% | 97.9% | 102.6% |
| Surface Water Management Fund | 6,755,606 | 8,521,319 | 26.1% | 6,847,891 | 8,391,990 | 22.5% | 98.7% | 101.5% |
| Solid Waste Fund | 9,408,768 | 12,619,000 | 34.1% | 10,040,676 | 13,228,950 | 31.8% | 93.7% | 95.4% |
| Total Utilities | 35,552,081 | 42,215,438 | 18.7% | 36,695,985 | 42,161,127 | 14.9% | 96.9% | 100.1% |
| Total All Operating Funds | 121,494,956 | 137,368,764 | 13.1% | 122,033,493 | 137,356,875 | 12.6% | 99.6% | 100.0% |



Kirkland City Council Unanimously Adopts 2013-14 City Budget

At its December 11, 2012 meeting, the Kirkland City Council adopted the 2013-2014 Budget. The two-year budget totals approximately \$543 million which is a 13.2% increase from the previous biennial budget due to the full two-year cost of providing services to the new neighborhoods, increased health benefit costs, the passage of Propositions 1 and 2, construction and occupancy of the Public Safety Building and anticipated increases in revenue from Real Estate Excise Tax (REET), impact fees, and lodging tax due to the improving economy. In order to balance the budget, \$5.3 million in cuts were necessary to ensure the City's expenses would equal its revenue.

In his Budget Message, City Manager Kurt Triplett conveyed "This budget funds the priorities and vision of our citizens as identified by our community survey and achieves progress on the Goals adopted by the City Council."

The preliminary Budget is currently available online at www.kirklandwa.gov/budget; the final Budget document will be available in hard copy and online by the end of March, 2013.

Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures ended the year at **93.4 percent** of budget. Savings are largely due to postponement of some annexation-related hiring, position vacancies, and jail contract savings. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures ended the year at **87.7 percent** of budget largely due to budgeted vehicle purchases which have not yet occurred and lower facility utility costs. Vehicle costs vary year-to-year depending on the planned replacement cycle. In addition, there were several new annexation-related vehicles budgeted in 2012 which had been delayed and will most likely be purchased in early 2013. Some of the savings from delayed vehicle purchases was offset by higher than budgeted fuel costs. Facility utility costs are down, partially due to milder winter weather, but also from staff conservation efforts and the pay-off from past investments in updated controls and equipment at various locations. Other Operating funds also saw some savings in personnel costs due to annexation-related positions not being filled.
- **Water/Sewer Operating Fund** actual expenditures ended the year at **97.3 percent** of budget. The City did not take over provision of water and sewer services in most of the newly annexed areas; those areas are served by Northshore Utility District and Woodinville Water District.
- **Surface Water Management Fund** actual 2012 expenditures ended the year at **84.4 percent** of budget as a result of postponing the hiring of annexation-related positions that resulted in significant savings in the personnel and supplies categories.
- **Solid Waste Fund** actual 2012 expenditures ended the year at **100.9 percent** of budget primarily because of the one-time Department of Revenue assessment that was paid in 2012 but was budgeted in 2011. The City did not exceed the 2011-2012 appropriation as a result of the change in the timing of this transaction.

| Expenditures by Fund | Year-to-Date Actual | | | Budget | | | % of Budget | |
|--------------------------------------|---------------------|--------------------|--------------|--------------------|--------------------|--------------|--------------|--------------|
| | 12/31/2011 | 12/31/2012 | % Change | 2011 | 2012 | % Change | 2011 | 2012 |
| General Gov't Operating: | | | | | | | | |
| General Fund | 63,324,094 | 67,962,459 | 7.3% | 67,878,459 | 72,747,879 | 7.2% | 93.3% | 93.4% |
| Other General Gov't Operating Funds | 14,785,499 | 16,634,001 | 12.5% | 17,106,576 | 18,962,841 | 10.9% | 86.4% | 87.7% |
| Total General Gov't Operating | 78,109,593 | 84,596,460 | 8.3% | 84,985,035 | 91,710,720 | 7.9% | 91.9% | 92.2% |
| Utilities: | | | | | | | | |
| Water/Sewer Operating Fund | 15,953,964 | 16,861,496 | 5.7% | 16,765,372 | 17,325,319 | 3.3% | 95.2% | 97.3% |
| Surface Water Management Fund | 3,688,910 | 4,639,221 | 25.8% | 4,338,938 | 5,495,211 | 26.6% | 85.0% | 84.4% |
| Solid Waste Fund | 9,526,936 | 13,254,275 | 39.1% | 10,070,151 | 13,135,052 | 30.4% | 94.6% | 100.9% |
| Total Utilities | 29,169,810 | 34,754,991 | 19.1% | 31,174,461 | 35,955,582 | 15.3% | 93.6% | 96.7% |
| Total All Operating Funds | 107,279,403 | 119,351,451 | 11.3% | 116,159,496 | 127,666,302 | 9.9% | 92.4% | 93.5% |

Budgeted and actual expenditures exclude working capital, operating reserves, capital reserves, and interfund transfers.

General Fund Revenue

Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.

- **Sales tax** revenue allocated to the General Fund ended the year at **102.6 percent** of budget. A detailed analysis of total **sales tax** revenue can be found starting on page 5.
- **Utility tax** receipts, including projected new neighborhood area revenues, ended the year below budget expectations at **97.9 percent**. The shortfall in telecommunication utility tax revenues experienced in 2011 continued through December 2012. In addition, water and electric utility tax revenues came in under budget due to weather related variations. Together these three revenues ended the year under expectations by approximately 10.5 percent or \$933,624. These shortfalls are partially offset by gas and cable utility tax revenues that exceeded budget expectations.
- **Other taxes** actual revenue ended the year at **112.8 percent** of budget due to higher than expected gambling revenue from the new neighborhoods.
- The **business licenses (base fee) and franchise fees** actual revenue ended the year at **105.0 percent**.
- The **revenue generating regulatory license** fee ended the year slightly under budget expectations at **99.4 percent** of budget.
- The **development-related fee** revenues, collectively, ended

the year above budget expectations at **124.3 percent** of budget. **Building permits** and **plan check revenue** collectively ended the year **102.9 percent** of budget and **engineering services** revenue ended the year at **210.2 percent** of budget. **Planning fees** revenue ended the year at **163.8 percent** of budget primarily due to major Process IIA and Design Board permit revenues. Note that a significant portion of this additional revenue is for work to be done in subsequent years and will be set aside in reserve for that purpose.

• **Fines and Forfeitures** ended the year below budget expectations at **64.9 percent** due to lower than expected parking and traffic infraction penalty revenues. This is offset in part by salary savings from a parking enforcement officer, which is now filled. Revenues are expected to increase with the function at full staffing.

• **Other financing sources** includes the asset transfer from Woodinville Fire & Rescue that was received in late 2011 and budgeted in 2012. \$175,000 in Interfund Transfers budgeted for the purchase of public safety radios in 2011 occurred in December of 2012.

General Fund 2012 revenues ended the year at 101 percent of budget (excluding other financing sources).

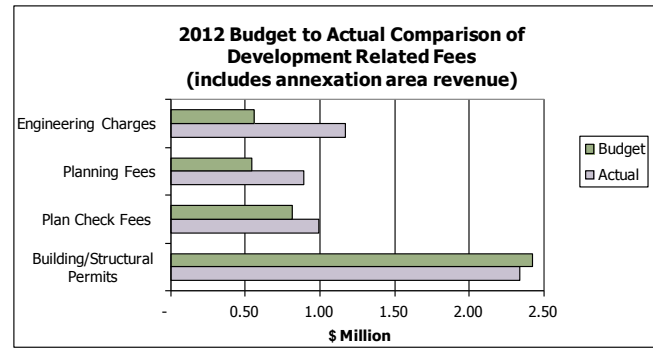
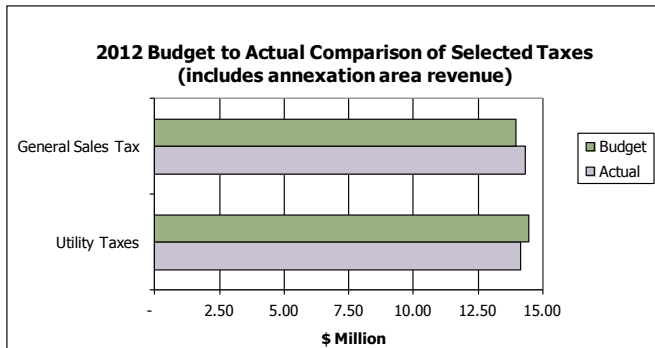
The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

In 2012, about 421 of the City's 541 regular employees are budgeted within this fund.

| General Fund Resource Category | Year-to-Date Actual | | | Budget | | | % of Budget | |
|--|---------------------|-------------------|---------------|-------------------|-------------------|---------------|---------------|---------------|
| | 12/31/2011 | 12/31/2012 | % Change | 2011 | 2012 | % Change | 2011 | 2012 |
| Taxes: | | | | | | | | |
| Retail Sales Tax: General | 12,918,182 | 14,340,264 | 11.0% | 12,885,899 | 13,972,010 | 8.4% | 100.3% | 102.6% |
| Retail Sales Tax Credit: Annexation | 1,088,061 | 3,543,431 | N/A | 1,129,866 | 3,409,791 | N/A | N/A | 103.9% |
| Retail Sales Tax: Criminal Justice | 1,141,768 | 1,671,316 | 46.4% | 1,149,997 | 1,568,112 | 36.4% | 99.3% | 106.6% |
| Property Tax | 13,088,632 | 15,999,451 | 22.2% | 13,261,709 | 16,049,865 | 21.0% | 98.7% | 99.7% |
| Utility Taxes | 11,861,208 | 14,160,641 | 19.4% | 12,436,696 | 14,468,333 | 16.3% | 95.4% | 97.9% |
| Rev Generating Regulatory License | 2,345,779 | 2,373,101 | 1.2% | 2,344,069 | 2,386,300 | 1.8% | 100.1% | 99.4% |
| Other Taxes | 440,258 | 1,134,577 | 157.7% | 312,250 | 1,005,488 | 222.0% | 141.0% | 112.8% |
| Total Taxes | 42,883,888 | 53,222,781 | 24.1% | 43,520,486 | 52,859,899 | 21.5% | 98.5% | 100.7% |
| Licenses & Permits: | | | | | | | | |
| Building, Structural & Equipment Permits | 1,675,118 | 2,340,270 | 39.7% | 1,748,605 | 2,423,612 | 38.6% | 95.8% | 96.6% |
| Business Licenses/Franchise Fees | 2,720,228 | 4,316,966 | 58.7% | 3,014,279 | 4,109,869 | 36.3% | 90.2% | 105.0% |
| Other Licenses & Permits | 207,444 | 250,705 | 20.9% | 217,579 | 217,579 | 0.0% | 95.3% | 115.2% |
| Total Licenses & Permits | 4,602,790 | 6,907,941 | 50.1% | 4,980,463 | 6,751,060 | 35.6% | 92.4% | 102.3% |
| Intergovernmental: | | | | | | | | |
| Grants and Federal Entitlements | 487,838 | 328,178 | -32.7% | 548,052 | 137,835 | -74.9% | 89.0% | 238.1% |
| State Shared Revenues & Entitlements | 871,865 | 1,328,459 | 52.4% | 947,385 | 909,967 | -3.9% | 92.0% | 146.0% |
| Property Tax - Fire District | 2,313,161 | - | N/A | - | - | N/A | 43.1% | N/A |
| Fire District #41 | 1,586,765 | - | N/A | 3,684,071 | - | N/A | 96.7% | 98.7% |
| EMS | 840,146 | 855,091 | N/A | 868,678 | 866,729 | N/A | 49.9% | 59.8% |
| Other Intergovernmental Services | 266,132 | 111,493 | -58.1% | 533,087 | 186,597 | -65.0% | 96.7% | 59.8% |
| Total Intergovernmental | 6,365,907 | 2,623,222 | -58.8% | 6,581,273 | 2,101,128 | -68.1% | 96.7% | 124.8% |
| Charges for Services: | | | | | | | | |
| Internal Charges | 5,393,203 | 5,381,414 | -0.2% | 5,558,328 | 5,894,286 | 6.0% | 97.0% | 91.3% |
| Engineering Services | 759,300 | 1,168,301 | 53.9% | 464,146 | 555,852 | 19.8% | 163.6% | 210.2% |
| Plan Check Fee | 528,411 | 992,679 | 87.9% | 1,115,779 | 814,484 | -27.0% | 47.4% | 121.9% |
| Planning Fees | 588,545 | 892,138 | 51.6% | 495,044 | 544,619 | 10.0% | 118.9% | 163.8% |
| Recreation | 1,082,755 | 1,131,941 | N/A | 1,162,406 | 1,152,963 | N/A | N/A | 98.2% |
| Other Charges for Services | 1,534,336 | 1,878,102 | 22.4% | 1,709,373 | 2,187,273 | 28.0% | 89.8% | 85.9% |
| Total Charges for Services | 9,886,550 | 11,444,576 | 15.8% | 10,505,076 | 11,149,477 | 6.1% | 94.1% | 102.6% |
| Fines & Forfeits | 1,843,298 | 1,806,069 | -2.0% | 2,435,490 | 2,781,169 | 14.2% | 75.7% | 64.9% |
| Miscellaneous | 929,484 | 975,872 | 5.0% | 641,940 | 598,901 | -6.7% | 144.8% | 162.9% |
| Total Revenues | 66,511,917 | 76,980,460 | 15.7% | 68,664,728 | 76,241,634 | 11.0% | 96.9% | 101.0% |
| Other Financing Sources: | | | | | | | | |
| Transfer of FD 41 & WFR Balances | 3,467,255 | - | N/A | 1,722,725 | 1,426,568 | N/A | N/A | N/A |
| Interfund Transfers | 99,534 | 329,054 | N/A | 275,028 | 153,560 | N/A | 36.2% | 214.3% |
| Total Other Financing Sources | 3,566,789 | 329,054 | N/A | 1,997,753 | 1,580,128 | N/A | 178.5% | 20.8% |
| Total Resources | 70,078,706 | 77,309,514 | 10.3% | 70,662,481 | 77,821,762 | 10.1% | 99.2% | 99.3% |

Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued*



General Fund Expenditures

| General Fund Department Expenditures | Year-to-Date Actual | | | Budget | | | % of Budget | |
|--|---------------------|-------------------|--------------|-------------------|-------------------|--------------|--------------|--------------|
| | 12/31/2011 | 12/31/2012 | % Change | 2011 | 2012 | % Change | 2011 | 2012 |
| Non-Departmental | 1,480,723 | 1,586,976 | 7.2% | 1,480,669 | 1,423,697 | -3.8% | 100.0% | 111.5% |
| City Council | 310,496 | 358,225 | 15.4% | 333,977 | 443,849 | 32.9% | 93.0% | 80.7% |
| City Manager's Office | 1,551,027 | 1,771,620 | 14.2% | 1,577,493 | 1,901,282 | 20.5% | 98.3% | 93.2% |
| Municipal Court | 1,829,709 | 2,028,875 | 10.9% | 1,966,708 | 2,630,719 | 33.8% | 93.0% | 77.1% |
| Human Resources | 1,223,115 | 1,215,749 | -0.6% | 1,267,998 | 1,274,208 | 0.5% | 96.5% | 95.4% |
| City Attorney's Office | 1,120,377 | 1,301,336 | 16.2% | 1,162,037 | 1,365,836 | 17.5% | 96.4% | 95.3% |
| Parks & Community Services | 6,702,160 | 6,914,075 | 3.2% | 7,108,434 | 7,326,446 | 3.1% | 94.3% | 94.4% |
| Public Works (Engineering) | 3,365,232 | 3,572,007 | 6.1% | 3,771,045 | 4,016,268 | 6.5% | 89.2% | 88.9% |
| Finance and Administration | 3,822,892 | 4,286,169 | 12.1% | 4,097,765 | 4,635,007 | 13.1% | 93.3% | 92.5% |
| Planning & Community Development | 2,880,397 | 3,094,304 | 7.4% | 2,932,820 | 3,424,656 | 16.8% | 98.2% | 90.4% |
| Police | 19,880,595 | 21,677,895 | 9.0% | 22,201,553 | 23,946,613 | 7.9% | 89.5% | 90.5% |
| Fire & Building | 19,157,371 | 20,155,229 | 5.2% | 19,977,960 | 20,359,298 | 1.9% | 95.9% | 99.0% |
| Total Expenditures | 63,324,094 | 67,962,459 | 7.3% | 67,878,459 | 72,747,879 | 7.2% | 93.3% | 93.4% |
| Other Financing Uses: | | | | | | | | |
| Interfund Transfers | 2,827,754 | 4,689,222 | 65.8% | 3,286,374 | 4,942,766 | 50.4% | 86.0% | 94.9% |
| Total Other Financing Uses | 2,827,754 | 4,689,222 | 65.8% | 3,286,374 | 4,942,766 | 50.4% | 86.0% | 94.9% |
| Total Expenditures & Other Uses | 66,151,848 | 72,651,681 | 9.8% | 71,164,833 | 77,690,645 | 9.2% | 93.0% | 93.5% |

Budgeted and actual expenditures exclude working capital, operating reserves, and capital reserves.

The 2012 Budget incorporates budget reductions in response to the economic downturn and additions as a result of annexation. The same dynamics impacted the 2011 budget at varying times throughout the year. This creates a challenge comparing 2012 to 2011, therefore, expenditures will only be compared to the 2012 budget.

Comparing 2012 actual expenditures to the 2012 budget:

Overall, General Fund expenditures ended the year at 93.4 percent of budget, excluding interfund transfers. More than half of the under expenditures are a result of salary and benefit savings partially due to delayed hiring for annexation. The remaining under expenditures are primarily due to savings in intergovernmental jail contract costs and professional services.

- Actual 2012 expenditures for **Nondepartmental** ended the year over budget due to known uses of the litigation reserves and expenditures occurring in "revolving" accounts moved the General Fund in the biennium, such as police and fire equipment, and parks donations.
- Actual 2012 expenditures for the **City Council** ended the year at **80.7 percent** of budget due to savings in dues and memberships.
- The **City Manager's Office** actuals ended the year at **93.2 percent** of budget due to savings in salaries and benefit expenses and professional services.
- The **Municipal Court** actuals ended the year at **77.1 percent** of budget due to savings in personnel costs associated with unfilled annexation positions. These positions are not needed and were eliminated in the 2013-2014 budget.

2012 General Fund actual expenditures (excluding "other financing sources") finished the year at 93.4 percent of budget, primarily due to postponement of annexation-related hiring, position vacancies in multiple departments and savings in jail costs.

Continued on page #

Financial Management Report as of December 31, 2012

- Actual 2012 expenditures for **Human Resources** ended the year at **95.4 percent** of budget due to savings in salaries and benefits and professional services.
- The City Attorney's Office** expenditures ended the year at **95.3 percent** of budget due to some savings in legal services.
- Actual 2012 expenditures for the **Parks & Community Services Department** ended the year at **94.4 percent** of budget due to vehicles for annexation not yet purchased, operating supplies and human services contract payments, the majority of which will occur in the first quarter of 2013.
- Actual expenditures for the **Public Works Department** ended the year at **88.9 percent** of budget due to position vacancies and professional services that will occur in the first quarter of 2013.
- The **Finance and Administration Department** expenditures ended the year at **92.5 percent** of budget due to lower than expected voter registration costs and savings in salaries and benefits.
- Actual 2012 expenditures for the **Planning and Community Development Department** ended the year at **90.4 percent** of budget due to savings in personnel costs as a result of unfilled positions.
- The **Police Department** ended the year at **90.5 percent** of budget due to savings from delayed annexation-related staffing and increased hiring of laterals (and related expenses) along with position vacancies. In addition, jail costs were under budget by \$1,063,231, due to contracts with other agencies for lower rates than those charged by King County and an increase in the use of electronic home detention and other sentencing measures as alternatives to jail time.

Summary of Fire District 41 Funds Revenues & Expenditures

| | Capital | General Government |
|-------------------------------|------------------|--------------------|
| Revenues: | | |
| Beginning Balance | 4,000,000 | 1,724,497 |
| Fire District Revenues | - | 1,872,041 |
| Interest and Other Revenues | 23,796 | 2,697 |
| Transfer from General Fund** | 1,225,681 | - |
| Total Revenues | 5,249,477 | 3,599,235 |
| Expenditures: | | |
| Operating Costs (per ILA)* | - | 164,058 |
| Fire District 2011 Contract | - | 2,209,496 |
| Transfer to Capital Project** | - | 1,225,681 |
| Station Consolidation Project | 37,872 | - |
| Total Expenditures | 37,872 | 3,599,235 |
| Ending Balance | 5,211,605 | (0) |

*Includes 2012 obligations

**Transfer of remaining Fire District 41 revenues from the General Fund to the Consolidated Fire Station Capital Improvement Project

Sales Tax Revenue Analysis 2012 sales tax revenue through December was up 10.6 percent compared to the same period in 2011. The 2012 budget for sales tax revenue assumed an increase of 7.9 percent over 2011 actuals, which reflected anticipated increases due to annexation.

Review by business sectors:

The **general merchandise/miscellaneous** retail sector was up **4.3 percent** compared to last year. A large one-time receipt received in early 2011 skews this comparison. Excluding this one-time receipt in 2011 this sector would have been up 7.6 percent.

The **auto/gas retail** sector was up **15.6 percent** compared to last year, largely due to positive performance by all of the key auto retailers in this category.

The **retail eating/drinking** sector performance was up **10.8 percent** compared to last year, due to positive performance by several key retailers.

Other retail was up **17.7 percent** compared to last year, due to positive performance in all of the categories except for the furniture and electronics categories.

The **contracting** sector was up **44.4 percent** compared to last year. A portion of this increase is attributed to revenues from the construction of two new elementary schools and continued improvement in development related activity.

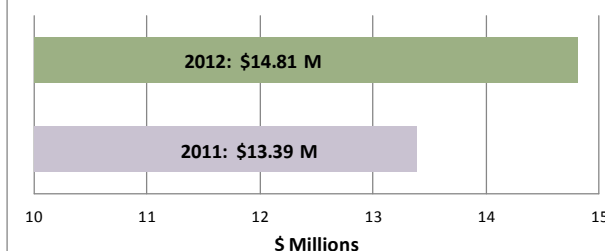
The **wholesale** sector was down **21.9 percent** compared to last year, due to a one-time refund of \$190,078 from the Department of Revenue to a taxpayer in the wholesale category in December. Excluding this amount, the sector would be an increase of 4.4 percent.

The **services** sector was down **1.6 percent** compared to last year, largely due to a one-time refund to a taxpayer from the Department of Revenue of \$127,000 in the other information category in May. The accommodations sector is up 2.9 percent or about \$8,200.

The **communications** sector was down **8.1 percent** compared to last year due to one-time development related revenues in February 2011 in the telecommunications category. Factoring out this one-time revenue, this category would be up 5.7 percent compared to last year.

The **miscellaneous** sector was down **13.4 percent** compared to last year due to the City receiving one-time Department of Revenue amnesty program revenues in 2011.

Sales Tax Receipts Through December 2012 and 2011



Streamlined Sales Tax

Local coding sales tax rules changed as a result of Washington State joining the national Streamlined Sales Tax Agreement in 2008. Negative impacts from this change are mitigated by the State of Washington. The year end revenue was about \$100,000, about \$14,000 under budget. This revenue source has been reduced due to the impact of state budget decisions.

Neighboring Cities Sales Tax

Bellevue was up 3.3 percent and Redmond was down 18.2 percent through December compared to the same period in 2011. Redmond was much lower due to \$4.6 million in field recoveries received in February and March 2011. Excluding field recoveries Redmond received about the same revenues through December in 2011 and 2012.

City of Kirkland Actual Sales Tax Receipts

| Business Sector Group | January-December | | Dollar Change | Percent Change | Percent of Total | |
|------------------------|-------------------|-------------------|------------------|----------------|------------------|---------------|
| | 2011 | 2012 | | | 2011 | 2012 |
| Services | 1,695,103 | 1,668,617 | (26,486) | -1.6% | 12.7% | 11.3% |
| Contracting | 1,751,622 | 2,529,780 | 778,158 | 44.4% | 13.1% | 17.1% |
| Communications | 475,176 | 436,466 | (38,710) | -8.1% | 3.5% | 2.9% |
| Auto/Gas Retail | 3,161,723 | 3,655,645 | 493,922 | 15.6% | 23.6% | 24.7% |
| Gen Merch/Misc Retail | 1,799,692 | 1,876,571 | 76,879 | 4.3% | 13.4% | 12.7% |
| Retail Eating/Drinking | 1,146,804 | 1,270,831 | 124,027 | 10.8% | 8.6% | 8.6% |
| Other Retail | 1,689,215 | 1,987,976 | 298,761 | 17.7% | 12.6% | 13.4% |
| Wholesale | 718,132 | 560,974 | (157,158) | -21.9% | 5.4% | 3.8% |
| Miscellaneous | 950,723 | 823,403 | (127,320) | -13.4% | 7.1% | 5.6% |
| Total | 13,388,190 | 14,810,263 | 1,422,073 | 10.6% | 100.0% | 100.0% |

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2011 and 2012 year-to-date sales tax receipts in the table to the left.

City of Kirkland Actual Monthly Sales Tax Receipts

| Month | Sales Tax Receipts | | Dollar Change | Percent Change |
|--------------|--------------------|-------------------|------------------|----------------|
| | 2011 | 2012 | | |
| January | 1,082,225 | 1,104,023 | 21,798 | 2.0% |
| February | 1,366,850 | 1,413,587 | 46,737 | 3.4% |
| March | 942,887 | 1,054,686 | 111,799 | 11.9% |
| April | 899,425 | 1,086,848 | 187,423 | 20.8% |
| May | 1,154,252 | 1,132,774 | (21,478) | -1.9% |
| June | 1,046,570 | 1,147,892 | 101,322 | 9.7% |
| July | 1,047,452 | 1,287,015 | 239,563 | 22.9% |
| August | 1,181,633 | 1,313,808 | 132,175 | 11.2% |
| September | 1,144,307 | 1,329,159 | 184,852 | 16.2% |
| October | 1,148,556 | 1,386,749 | 238,193 | 20.7% |
| November | 1,236,264 | 1,410,201 | 173,937 | 14.1% |
| December | 1,137,769 | 1,143,521 | 5,752 | 0.5% |
| Total | 13,388,190 | 14,810,263 | 1,422,073 | 10.6% |

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City. For example, sales tax received by the City in December is for sales activity in October. Monthly sales tax receipts through December 2011 and 2012 are compared in the table above.

- January 2012 was slightly ahead of January 2011. A large one-time receipt in January 2011 skews the comparison. The increase is 7.6 percent after factoring out this one-time event.
- Receipts for February were also skewed by a large one time adjustment in the communications category and the revenues from the new neighborhoods. Factoring out these revenues results in an increase of 1.8 percent.
- April receipts showed significant increases in the contracting, other retail and auto/gas categories.
- Receipts for May were down largely due to a one-time taxpayer refund.
- June continued to see increases in the contracting, other retail and auto/gas retail categories.
- July, August, September, October and November continued to see significant improvements in construction-related activity, strong performance in the auto/gas retail sector, and a general stabilization in the economy.
- December sales tax revenue was up 0.5 percent due to a large one-time taxpayer refund from the Department of Revenue in the wholesale category of \$190,078. Without the one-time refund December would have been up 17.2 percent.

Kirkland's sales tax base is further broken down by business district (according to geographic area), as well as "unassigned or no district" for small businesses and businesses with no physical presence in Kirkland.

Comparing to the same period last year:

Totem Lake, which accounts for about 30 percent of the total sales tax receipts, was **up 11.0 percent** due to continued improvements in automotive/gas retail and improvements in the all retail categories.

About 60 percent of this business district's revenue comes from the auto/gas retail sector.

NE 85th Street, which accounts for 15 percent of the total sales tax receipts, was **up 10.7 percent** primarily due to increases in all of the retail categories. These retail sectors contribute almost 96 percent of this business district's revenue.

Downtown, which accounts for more than 5 percent of the total sales tax receipts, was **down 10.7 percent** largely due to a one-time taxpayer refund in the other information services category that reduced the City's receipts in May. If this one-time taxpayer refund is factored out, Downtown tax receipts would be up 3.6 percent.

Carillon Point & Yarrow Bay, which account for more than 2 percent of the total sales tax receipts, were **down 22.0 percent** compared to last year primarily due to one-time revenues in the

other retail category in February 2011. About 74 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

Houghton & Bridle Trails, which account for more than 2 percent of the total sales tax receipts, were **up 6.6 percent** collectively due to strong performance in the other retail category. The retail sectors provide about 69 percent of these business districts' revenue.

Juanita, which accounts for about 2 percent of the total sales tax receipts was **up 3.8 percent**. Increases in the retail eating/drinking are offset by poor performance in the business services category. These sectors, along with miscellaneous retail make up about 76 percent of this business district's revenue.

North Juanita, Kingsgate, & Finn Hill which account for more than 3 percent of the total sales tax receipts. Sales tax receipts for these business districts continued to perform below budget projections, which were based on data from King County. Note that 2011 receipts reflected one quarter of revenues only. Retail eating/drinking and food retail sectors provide about 67 percent of these business districts sales tax revenues.

Year-to-date sales tax receipts by business district for 2011 and 2012 are compared in the table on the next page.

When reviewing sales tax receipts by business district, it's important to point out that more than 45 percent of the revenue received in 2012 is in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from Internet, catalog sales and other businesses located outside of the City.

City of Kirkland Sales Tax by Business District

| Business District | Jan - Dec Receipts | | Dollar Change | Percent Change | Percent of Total | |
|----------------------------|--------------------|-------------------|------------------|----------------|------------------|---------------|
| | 2011 | 2012 | | | 2011 | 2012 |
| Totem Lake | 3,969,493 | 4,405,643 | 436,150 | 11.0% | 29.6% | 29.7% |
| NE 85th St | 1,977,792 | 2,189,027 | 211,235 | 10.7% | 14.8% | 14.8% |
| Downtown | 886,762 | 791,614 | (95,149) | -10.7% | 6.6% | 5.3% |
| Carillon Pt/Yarrow Bay | 451,670 | 352,206 | (99,464) | -22.0% | 3.4% | 2.4% |
| Houghton & Bridle Trails | 346,139 | 369,094 | 22,955 | 6.6% | 2.6% | 2.5% |
| Juanita | 242,242 | 251,510 | 9,268 | 3.8% | 1.8% | 1.7% |
| Kingsgate | 105,668 | 178,081 | 72,413 | 68.5% | 0.8% | 1.2% |
| North Juanita | 134,286 | 240,275 | 105,989 | 78.9% | 1.0% | 1.6% |
| Finn Hill | 55,606 | 90,947 | 35,341 | 63.6% | 0.4% | 0.6% |
| Unassigned or No District: | | | | | | |
| Contracting | 1,749,027 | 2,527,202 | 778,175 | 44.5% | 13.1% | 17.1% |
| Other | 3,469,503 | 3,414,665 | (54,838) | -1.6% | 29.9% | 28.2% |
| Total | 13,388,189 | 14,810,263 | 1,422,075 | 10.6% | 100.0% | 100.0% |

Sales Tax Revenue Outlook Sales tax receipts for 2012 continued to indicate a slow recovery and the normal revenue volatility associated with sales tax revenues. The services, contracting, automotive/gas retail and other retail sectors contributed the largest amount of gain, but these sectors are very sensitive to economic conditions. The contracting sector has shown signs of recovery, with some of this gain due to the construction of two new elementary schools in the new neighborhoods. Anticipating revenues from the new neighborhoods for the full year of 2012, the budget included a 7.9 percent increase over 2011 actual. New neighborhood revenue is below expectations offset by gains in the pre-annexation City and contracting. Total sales tax receipts ended the year 10.6 percent ahead of 2011.

OFFICE VACANCIES:

According to CB Richard Ellis Real Estate Services, the Eastside office vacancy rate dropped to a four year low of 15.4 percent for the fourth quarter of 2012, compared to 15.5 percent for the fourth quarter of 2011. Kirkland's 2012 vacancy rate was 8.2 percent, slightly higher than the 2011 rate of 7.9 percent.

The Puget Sound office market flourished in 2012 with annual absorption of 3.12 million square feet, the greatest since 2000. The Amazon.com \$1.16 billion purchase of properties in South Lake Union was the nations largest office sale in 2012.

The Puget Sound region office market currently has 20.3 million square feet of announced projects in the pipeline, with developers positioning their sites to accommodate future growth.

LODGING TAX REVENUE:

Lodging tax revenue ended the year at 108.1 percent of the budget and 6.1 percent more than 2011.

Economic Environment Update The International Monetary Fund, led by its chief economist, Olivier Blanchard, in the latest update to its World Economic Outlook, estimates that the U.S. economy grew by 2.3 percent in 2012 and he predicts that that number will fall to 2 percent for 2013. In addition, Reuters polled analysts in December, which produced a median forecast for 1.9 percent U.S. economic growth in 2013. Congress passed, and the President signed, a bill to avoid most of the tax increases and budget cuts that made up the "fiscal cliff." However, the payroll tax on employee wages will rise (from 4.2% to 6.2%). Across-the-board budget cuts were delayed for two months. Economists also say the U.S. economy will likely grow much more quickly if the government was not raising taxes. Some economists think ongoing talks in Congress will eventually lead these spending cuts to be put off until next year, presumably once lawmakers reach a deal to reduce spending over the longer term while granting the government authority to increase the national debt. However, they might not reach a deal, and the planned spending cuts would then cut deeply into economic growth in the second half of the year.

The Conference Board **Consumer Confidence Index**, which had declined slightly in November, posted another decrease in December. The Index now stands at 65.1 down from 71.5 in November. Lynn Franco, Director of Economic Indicators at The Conference Board said: "Consumers' expectations retreated sharply in December resulting in a decline in the overall Index. The sudden turnaround in expectations was most likely caused by uncertainty surrounding the oncoming fiscal cliff. A similar decline in expectations was experienced in August of 2011 during the debt ceiling discussions. While consumers are quite negative about the short-term outlook, they are more upbeat than last month about current business and labor market conditions." An index of 90 indicates a stable economy an index of above 100 indicates growth.

King County's **unemployment rate** was **6.1 percent** in December 2012 compared to 7.1 percent in December 2011. King County's unemployment rate is lower than the Washington State and national rates, which were 7.7 and 7.6 percent respectively. The unemployment rate in Kirkland for December was 5.3 percent compared to 6.0 percent in December 2011.

(Continued on page 8)

Economic Environment Update *continued*

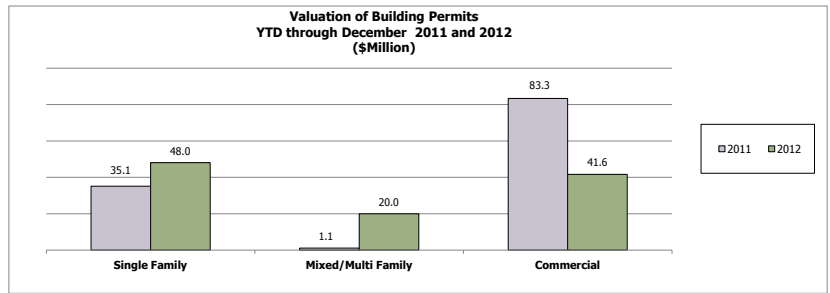
The Western Washington Purchasing Manager Index for the month of December saw a slight decline of economic activity in the Pacific Northwest. The index was at 62.0, down from 63.2 in November. Index numbers less than 50 indicate a shrinking economy, while those over 50 signal an expanding economy.

Local **development activity** through December comparing 2011 to 2012 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Overall activity is down about 8

percent from last year. Activity has improved in single family and mixed use/multifamily but declined in the commercial sector. A large mixed use/multifamily project permit was applied for in October for the Totem Lake area which increased the valuation in this sector significantly. Beginning in June of 2012 public building permit data was combined with commercial permits.

Closed sales of **new and existing single-family homes** on the Eastside were up 32.9 percent in December 2012 compared to December 2011. The median price of a single family home increased from \$460,000 in December 2011 to \$510,468 in December 2012. Closed sales of condos throughout King County were up 31.6 percent and median prices increased by 2.3 percent, from \$239,500 to \$245,000. County-wide, closed sales for single family homes and condos increased by 18.3 percent. The county-wide median home price increased by 17.5 percent year-over-year.

Seattle metro consumer price index (CPI) in December was at 1.4 percent, the Seattle metro CPI fluctuated throughout the year averaging 2.66 percent. The Seattle index is calculated on a bi monthly basis. The national index ended the year at 1.7 percent in December and averaged 2.12 percent for 2012.

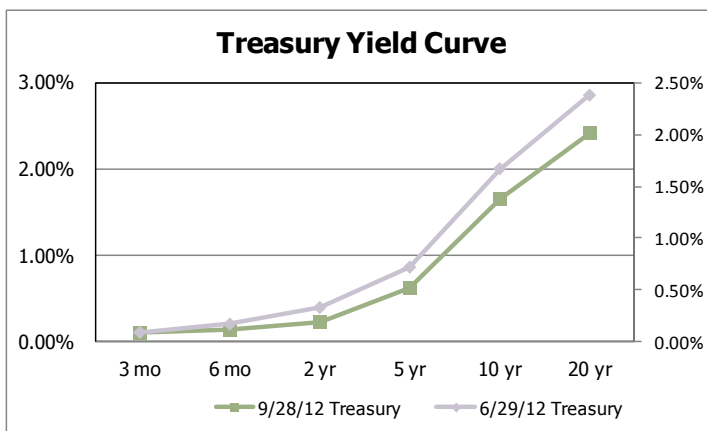


Investment Report

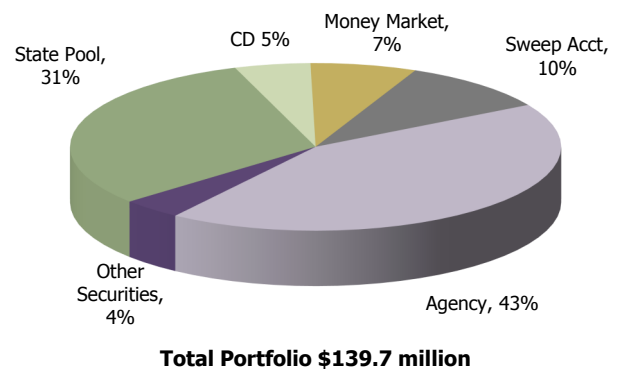
MARKET OVERVIEW

The news for the 4th quarter 2012 is the same story as previous quarters in 2012, very little or no change in the rates. The Fed Funds rate continues to hold at 0.25 percent through the fourth quarter. It is now expected that these rates will remain at this level well into 2015. There was little change in the economy for this quarter as well. The yield curve remained nearly the same for this quarter with only a slight drop in rates in the short end of the curve and a slight increase in rates at the long end of the curve.

During the 4th quarter of 2012, the City's portfolio balance increased by \$8.8 million. The portfolio balance was \$139.7 million on September 30, 2012 compared to \$148.5 million on December 31, 2012. \$3 million of this increase was due to lowering the balance kept in the general bank account to cover bank fees, from \$5 million to \$2 million. The balance kept in the City's general account is not included in the investment portfolio. The remaining \$5.5 million increase was due to receiving the 2nd half of property taxes due at the end of October.



Investments by Category



CITY PORTFOLIO

The primary objectives for the City of Kirkland's investment activities are: legality, safety, liquidity and yield. Additionally, the City diversifies its investments according to established maximum allowable exposure limits so that reliance on any one issuer will not place an undue financial burden on the City.

Diversification

The City's current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, US Government Obligations, State and Local Government bonds, Bank CDs, Money Market Account, the State Investment Pool and an overnight bank sweep account. City investment procedures allow for 100% of the portfolio to be invested in U.S. Treasury or Federal Government obligations.

2012 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

The outlook for the U.S. economy changed very little in the 4th quarter of 2012 according to 39 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The U.S. economy is expected to grow at an annual rate of 2.2 percent in 2012 and 2.0 percent in 2013. CPI inflation is expected to average 1.9 percent in 2012 and 2.2 percent in 2013. The unemployment rate is expected to average 8.1 percent in 2012 and fall to 7.8 percent in 2013. The Fed Funds rate, currently at 0.25%, is expected to remain at this level well into 2015.

The duration of the portfolio increased in the 4th quarter as securities with longer maturities were purchased to take advantage of the slight increase in rates on the longer end of the yield curve. Opportunities for increasing portfolio returns are scarce as short term interest rates continue at historically low levels. New security purchases will be made as opportunities to obtain moderate returns become available. The State Pool is currently at 0.24% and will continue to remain low as the Fed Funds rate remains at 0.00 to 0.25%. Total investment income for 2012 was \$889,500.

Investment Report *continued*

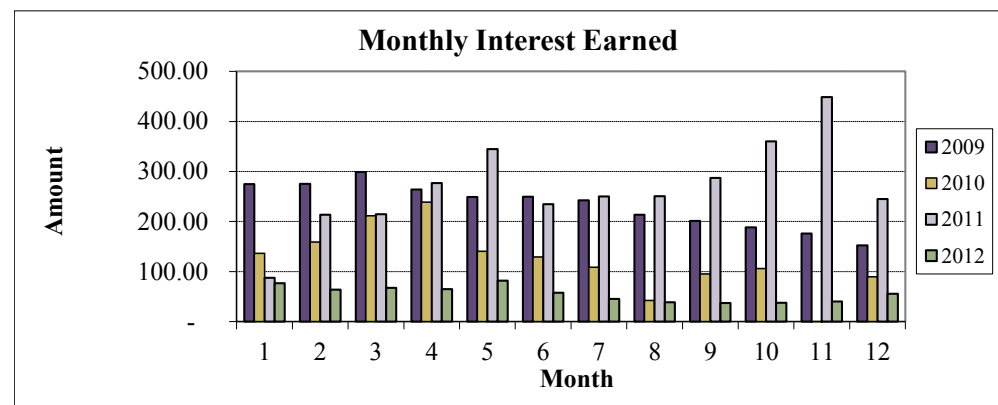
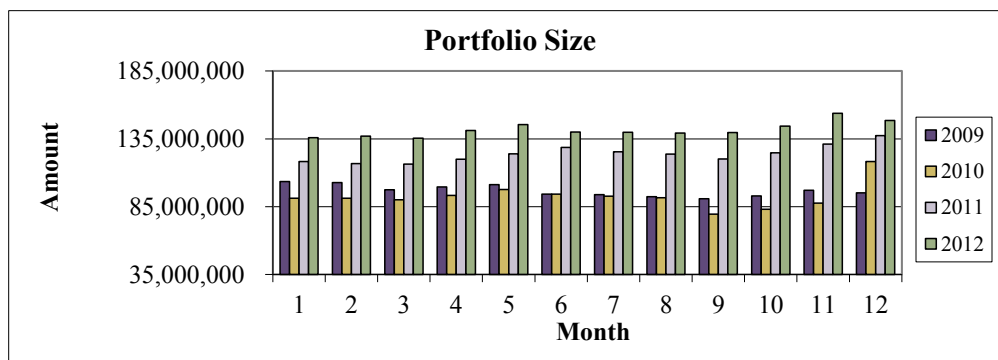
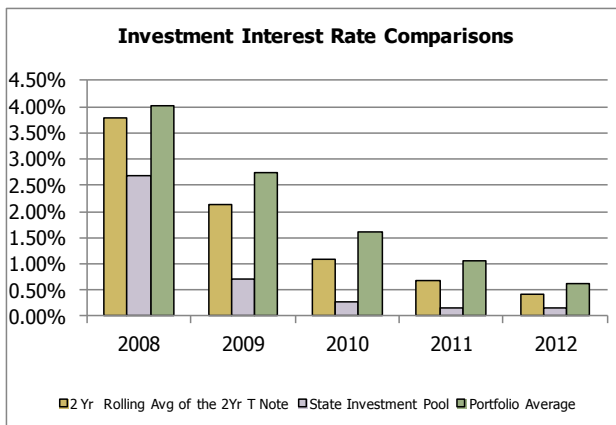
Liquidity

The target duration for the City's portfolio is based on the 2 year Treasury rate, which increased slightly from 0.23 percent on September 30, 2012 to 0.25 percent on December 31, 2012. The average maturity of the City's investment portfolio increased from 0.63 years on September 30, 2012 to 2.16 years on December 31, 2012 with the purchase of longer term securities as the interest rates moved higher.

Yield

The City Portfolio yield to maturity increased from 0.47 percent on September 30, 2012 to 0.64 percent on December 31, 2012. Through December 31, 2012, the City's annual average yield to maturity was 0.60 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council. The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury Note, which was 0.35 percent on December 31, 2012.

The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the adjacent graph.



Reserves are an important indicator of the City's fiscal health and effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are dedicated to a specific purpose. The reserves are listed with their revised estimated balances at the end of the biennium as of December 31, 2012.

Reserve Analysis

General Purpose Reserves

- The **Revenue Stabilization Reserve** was used almost in its entirety during the 2009-10 biennium as part of the budget balancing strategy to address the severe economic downturn, which allowed the City to mitigate some negative impacts to services. General Fund 2010 year-end cash was used to replenish this reserve in the amount of \$600,000 in 2011 and an additional \$500,000 replenishment was made as part of the Mid-Biennial budget process. Further replenishment will remain a high priority.
- The **Building and Property Reserve** has been identified as an available funding source for facility expansion and renovation projects.

General Capital Reserves

- The downturn in real estate transactions over the last few years has significantly impacted **Real Estate Excise Tax (REET)** collections resulting in adjustments to capital project planning to reflect available funding. However, through December 31, 2012, REET revenues saw a 96 percent increase over 2011. Although the "Revised 2012 Ending Balance" for REET 2 reserves is only \$135,379, the actual expected year-end balance is almost \$2.3 million due to higher than budgeted revenue receipts and despite the use of this reserve in 2012 to assist in the re-payment of the loan from the utilities for the purchase of the Cross Kirkland Corridor in 2011.
- Impact fees** ended the year significantly ahead of 2011, with increases in both transportation and park impact fees. Transportation fees ended the year at 341 percent of the 2012 budget and park fees ended at 493 percent. There is no planned use for capital projects in the current budget cycle (except that Park impact fees will be used to pay related debt), since these revenue sources were expected to remain low compared to historical trends until development activity improved.

| Reserves | 2011 Beginning Balance | Adopted 2012 Ending Balance | Revised 2012 Ending Balance | 2011-12 Target | Revised Over (Under) Target |
|--|------------------------------|-----------------------------------|-----------------------------------|-------------------|-----------------------------------|
| GENERAL PURPOSE RESERVES WITH TARGETS | | | | | |
| General Fund Reserves: | | | | | |
| General Fund Contingency | 50,000 | 50,000 | 50,000 | 50,000 | 0 |
| General Oper. Reserve (Rainy Day) | 2,806,513 | 2,806,513 | 2,806,513 | 4,127,496 | (1,320,983) |
| Revenue Stabilization Reserve | 131,431 | 731,431 | 1,231,431 | 2,279,251 | (1,047,820) |
| Council Special Projects Reserve | 201,534 | 251,534 | 182,534 | 250,000 | (67,466) |
| Contingency | 2,051,870 | 2,201,870 | 2,201,870 | 4,016,232 | (1,814,362) |
| General Capital Contingency: | 4,844,957 | 4,669,463 | 2,686,557 | 4,631,904 | (1,945,347) |
| General Purpose Reserves with Targets | 10,086,305 | 10,710,811 | 9,158,905 | 15,354,883 | (6,195,978) |
| ALL OTHER RESERVES WITH TARGETS | | | | | |
| General Fund Reserves: | | | | | |
| Litigation Reserve | 70,000 | 70,000 | 0 | 50,000 | (50,000) |
| Firefighter's Pension Reserve | 1,595,017 | 1,734,215 | 1,734,215 | 1,568,207 | 166,008 |
| Health Benefits Fund: | | | | | |
| Claims Reserve | 0 | 1,424,472 | 1,424,472 | 1,424,472 | 0 |
| Rate Stabilization Reserve | 0 | 1,000,000 | 1,000,000 | 500,000 | 500,000 |
| Excise Tax Capital Improvement: | | | | | |
| REET 1 | 1,530,280 | 1,019,907 | 827,222 | 1,035,000 | (207,778) |
| REET 2* | 7,121,695 | 4,975,718 | 135,739 | 2,716,983 | (2,581,244) |
| Water/Sewer Operating Reserve: | 1,979,380 | 1,979,380 | 1,939,380 | 1,979,380 | (40,000) |
| Water/Sewer Debt Service Reserve: | 822,274 | 508,717 | 508,717 | 508,717 | 0 |
| Water/Sewer Capital Contingency: | 1,793,630 | 1,793,630 | 1,793,630 | 250,000 | 1,543,630 |
| Surface Water Operating Reserve: | 412,875 | 412,875 | 412,875 | 412,875 | 0 |
| Surface Water Capital Contingency: | 858,400 | 858,400 | 858,400 | 758,400 | 100,000 |
| Other Reserves with Targets | 16,183,551 | 15,777,314 | 10,634,650 | 11,204,034 | (569,384) |
| Reserves without Targets | 30,815,305 | 36,462,059 | 34,833,444 | n/a | n/a |
| Total Reserves | 57,085,161 | 62,950,184 | 54,626,999 | n/a | n/a |

The target comparison reflects revised ending balances to the targets established in the budget process for those reserves with targets.

General Purpose reserves are funded from general revenue and may be used for any general government function.

All Other Reserves with Targets have restrictions for use either from the funding source or by Council-directed policy (such as the Litigation Reserve).

*See "General Capital Reserves" bullet point above table

The summary to the right details all Council authorized uses and additions through December 31, 2012.

USES AND ADDITIONS HIGHLIGHTS

| RESERVE | AMOUNT | DESCRIPTION |
|---|-------------|---|
| 2011-12 Council Authorized Uses | | |
| 2011 Total Uses | \$1,891,458 | |
| 2012 First Quarter Total Uses | \$311,500 | |
| 2012 Second Quarter Total Uses | \$4,184,869 | |
| 2012 Third Quarter Total Uses | \$1,313,800 | |
| Street Improvement Reserve | \$28,000 | NE 68th St/108th Ave Intersection |
| Off Street Parking Reserve | \$5,000 | Two Downtown Parking Pay Station Shelters |
| Real Estate Excise Tax 2 - Transp. | \$1,931,000 | NE 120th Street Roadway Extension |
| Real Estate Excise Tax 2 - Transp. | \$2,505,726 | Cross Kirkland Corridor Interfund Loan Repayment |
| Real Estate Excise Tax 2 - Transp. | \$86,000 | 100th Ave NE Bicycle Lanes |
| Cash use in anticipation of future revenues | \$886,906 | Accrued revenue to be received in 2013 |
| 2011-12 Council Authorized Additions | | |
| Council Special Projects Reserve | \$3,000 | CDBG Funding Request Withdrawn |
| Revenue Stabilization Reserve | \$500,000 | Replenishing Revenue Stabilization Reserve |
| Radio Reserve | \$7,686 | Reimbursement from NORCOM |
| Development Services Reserve | \$280,000 | Recognizing Additional Development Services Revenue for Future Work |
| Wtr-Swr Construction/Surf Wtr Tran Rsv | \$4,030,388 | Cross Kirkland Corridor Interfund Loan Repayment |

General Fund and Contingency reserves are funded from general purpose revenue and are governed by Council-adopted policies.

Note: Fund structure changes required by new accounting standards moved many of the General Purpose reserves out of the Parks & Municipal Reserve Fund (which was closed) and to the General Fund.

Special Purpose reserves reflect both restricted and dedicated revenue for specific purpose, as well as general revenue set aside for specific purposes.

General Capital Reserves provide the City the ability to respond to unexpected changes in costs and accumulate funds for future projects. It is funded from both general revenue and restricted revenue.

Utility reserves are funded from utility rates and provide the utilities with the ability to respond to unexpected costs and accumulate funds for future replacement projects.

Internal service funds are funded by charges to operating departments. They provide for the accumulation of funds for replacement of equipment, as well as the ability to respond to unexpected costs.

| Reserves | Description | 2011 Beginning Balance | Adopted 2012 Ending Balance | Additional Authorized Uses/Additions | Revised 2012 Ending Balance |
|---|--|------------------------|-----------------------------|--------------------------------------|-----------------------------|
| GENERAL FUND/CONTINGENCY | | | | | |
| General Fund Reserves: | | | | | |
| General Fund Contingency | Unexpected General Fund expenditures | 50,000 | 50,000 | 0 | 50,000 |
| General Oper. Reserve (Rainy Day) | Unforeseen revenues/temporary events | 2,806,513 | 2,806,513 | 0 | 2,806,513 |
| Revenue Stabilization Reserve | Temporary revenue shortfalls | 131,431 | 731,431 | 500,000 | 1,231,431 |
| Building & Property Reserve | Property-related transactions | 2,137,598 | 2,137,598 | 0 | 2,137,598 |
| Council Special Projects Reserve | One-time special projects | 201,534 | 251,534 | (69,000) | 182,534 |
| Contingency | Unforeseen expenditures | 2,051,870 | 2,201,870 | 0 | 2,201,870 |
| Total General Fund/Contingency | | 7,378,946 | 8,178,946 | 431,000 | 8,609,946 |
| SPECIAL PURPOSE RESERVES | | | | | |
| General Fund Reserves: | | | | | |
| Litigation Reserve | Outside counsel costs contingency | 70,000 | 70,000 | (70,000) | 0 |
| Labor Relations Reserve | Labor negotiation costs contingency | 70,606 | 70,606 | 0 | 70,606 |
| Police Equipment Reserve | Equipment funded from seized property | 50,086 | 50,086 | 0 | 50,086 |
| LEOFF 1 Police Reserve | Police long-term care benefits | 618,079 | 618,079 | 0 | 618,079 |
| Facilities Expansion Reserve | Special facilities expansions reserve | 800,000 | 800,000 | 0 | 800,000 |
| Development Services Reserve | Revenue and staffing stabilization | 486,564 | 636,564 | 165,997 | 802,561 |
| Tour Dock | Dock repairs | 81,745 | 81,745 | 0 | 81,745 |
| Tree Ordinance | Replacement trees program | 29,117 | 29,117 | (10,000) | 19,117 |
| Donation Accounts | Donations for specific purposes | 185,026 | 185,026 | 0 | 185,026 |
| Revolving Accounts | Fee/reimbursement for specific purposes | 436,386 | 436,386 | (2,318) | 434,068 |
| Lodging Tax Fund | Tourism program and facilities | 146,384 | 123,566 | (19,800) | 103,766 |
| Cemetery Improvement | Cemetery improvements/debt service | 439,415 | 439,415 | 0 | 439,415 |
| Off-Street Parking | Downtown parking improvements | 10,776 | 10,776 | (7,880) | 2,896 |
| Firefighter's Pension | Long-term care/pension benefits | 1,595,017 | 1,734,215 | 0 | 1,734,215 |
| Total Special Purpose Reserves | | 5,019,201 | 5,285,581 | 55,999 | 5,341,580 |
| GENERAL CAPITAL RESERVES | | | | | |
| Excise Tax Capital Improvement: | | | | | |
| REET 1 | Parks/transportation/facilities projects, parks debt service | 1,530,280 | 1,019,907 | (192,685) | 827,222 |
| REET 2* | Transportation and other capital projects | 7,121,695 | 4,975,718 | (4,839,979) | 135,739 |
| Impact Fees | | | | | |
| Roads | Transportation capacity projects | 525,095 | 1,112,245 | 0 | 1,112,245 |
| Parks | Parks capacity projects | 2,033 | 3,038 | 0 | 3,038 |
| Street Improvement | Street improvements | 1,092,258 | 1,092,258 | (96,300) | 995,958 |
| General Capital Contingency | Changes to General capital projects | 4,844,957 | 4,669,463 | (1,982,906) | 2,686,557 |
| Total General Capital Reserves | | 15,116,318 | 12,872,629 | (7,111,870) | 5,760,759 |
| UTILITY RESERVES | | | | | |
| Water/Sewer Utility: | | | | | |
| Water/Sewer Operating Reserve | Operating contingency | 1,979,380 | 1,979,380 | (40,000) | 1,939,380 |
| Water/Sewer Debt Service Reserve | Debt service reserve | 822,274 | 508,717 | 0 | 508,717 |
| Water/Sewer Capital Contingency | Changes to Water/Sewer capital projects | 1,793,630 | 1,793,630 | 0 | 1,793,630 |
| Water/Sewer Construction Reserve | Replacement/re-prioritized/new projects | 7,870,665 | 9,871,542 | (1,037,500) | 8,834,042 |
| Surface Water Utility: | | | | | |
| Surface Water Operating Reserve | Operating contingency | 412,875 | 412,875 | 0 | 412,875 |
| Surface Water Capital Contingency | Changes to Surface Water capital projects | 858,400 | 858,400 | 0 | 858,400 |
| Surface Water-Transp. Related Rsv | Replacement/re-prioritized/new projects | 2,483,250 | 3,666,250 | 0 | 3,666,250 |
| Surface Water Construction Reserve | Trans. related surface water projects | 2,848,125 | 3,376,431 | (571,000) | 2,805,431 |
| Total Utility Reserves | | 19,068,599 | 22,467,225 | (1,648,500) | 20,818,725 |
| INTERNAL SERVICE FUND RESERVES | | | | | |
| Health Benefits: | | | | | |
| Claims Reserve | Health benefits self insurance claims | 0 | 1,424,472 | 0 | 1,424,472 |
| Rate Stabilization Reserve | Rate stabilization | 0 | 1,000,000 | 0 | 1,000,000 |
| Equipment Rental: | | | | | |
| Vehicle Reserve | Vehicle replacements | 7,718,221 | 8,047,063 | (57,500) | 7,989,563 |
| Radio Reserve | Radio replacements | 0 | 0 | 7,686 | 7,686 |
| Information Technology: | | | | | |
| PC Replacement Reserve | PC equipment replacements | 258,311 | 318,646 | 0 | 318,646 |
| Technology Initiative Reserve | Technology projects | 690,207 | 690,207 | 0 | 690,207 |
| Major Systems Replacement Reserve | Major technology systems replacement | 245,500 | 84,900 | 0 | 84,900 |
| Facilities Maintenance: | | | | | |
| Operating Reserve | Unforeseen operating costs | 550,000 | 550,000 | 0 | 550,000 |
| Facilities Sinking Fund | 20-year facility life cycle costs | 1,039,858 | 2,030,515 | 0 | 2,030,515 |
| Total Internal Service Fund Reserves | | 10,502,097 | 11,721,331 | (49,814) | 11,671,517 |
| Grand Total | | 57,085,161 | 62,950,184 | (8,323,185) | 54,626,999 |

*See "General Capital Reserves" bullet point regarding REET 2 reserves on page 10



The Financial Management Report (FMR) is a high-level status report on the City's financial condition that is produced quarterly.

- It provides a **summary budget to actual comparison** for year-to-date revenues and expenditures for all operating funds.
- The **Sales Tax Revenue Analysis** report takes a closer look at one of the City's larger and most economically sensitive revenue sources.
- **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
- The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
- The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.

- Tracey Dunlap, Director of Finance & Administration
- Michael Olson, Deputy Director of Finance & Administration
- Sri Krishnan, Financial Planning Manager
- Neil Kruse, Senior Financial Analyst
- Karen Terrell, Budget Analyst

www.kirklandwa.gov



City of Kirkland
123 5th Avenue
Kirkland, WA 98033
Ph. 425-587-3101

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- Washington State Department of Labor & Industries
- City of Kirkland Building Division